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STATE FOR SCA/CEN, TREASURY FOR JEFFERY BAKER

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SUBJECT: TURKMENISTAN: SCENE-SETTER FOR TREASURY VISIT,  
SEPTEMBER 9-11

11. (U) Sensitive but unclassified. Not for public Internet.

12. (SBU) Embassy Ashgabat warmly welcomes you to Turkmenistan. You are coming to Turkmenistan in the early months of a bilateral dialogue directed toward encouraging Turkmenistan to make the economic and finance reforms that will improve its foreign investment climate and develop its economy. USAID Deputy Assistant Drew Luten started the dialogue during a July 22-28 visit, and the State Department's Assistant Secretary for Economic, Energy and Business, Dan Sullivan, continued it during an August 12-15 trip. You will have a heavy schedule on September 10, but we are certain that your visit can help advance U.S. foreign policy.

#### ECONOMY AND FINANCE

13. (SBU) Turkmenistan's economy is closely controlled by the state, and, although the government for many years regularly proclaimed its wish to attract foreign investment, it made little effort up to now to change the state-control mechanisms and restrictive currency-exchange system that created a difficult foreign investment climate. However, in recent months, we have seen greater willingness among upper-level personnel at Turkmenistan's main economic and financial institutions -- including both the Ministry of Economy and Finance and the Central Bank -- to acknowledge that reforms are necessary. Part of this new attitude is linked to the president's growing frustration, expressed publicly during several cabinet-level meetings in August, with Turkmenistan's complex, opaque web of on- and off-budget funds, which have made a thorough accounting of state income and disbursements/expenses virtually impossible. And, in fact, President Berdimuhamedov's frustration with the lack of accountability in the budget was one of the key factors that led, in late July, to the creation of a Supreme Auditing Chamber. That said, growing interest in investing in Turkmenistan among western businessmen in hopes that the new government eventually will make the changes necessary to improve the investment climate is also providing an incentive for change.

14. (SBU) Given the unrelenting pressure from Berdimuhamedov for a new way of handling the budget, you are likely to find the Ministry of Economy and Finance receptive to almost any assistance the United States can offer related to budget management. This would include not only assistance with the planning process, but also mechanisms to increase transparency and accountability as well as tax and expenditure policy. In addition, officials at the Ministry (and, in fact, the growing number of U.S. companies doing business here) have raised the possibility of concluding a new double taxation treaty with Turkmenistan. The United States recognizes the old treaty that it concluded with the Soviet Union, but all players most closely involved agree that the treaty is both out-of-date and not working. Finally, the dual exchange rate regime also remains an impediment both for foreign firms (repatriation of profits is at best complicated and at worst impossible) and for many diplomatic missions and foreign NGOs serving as assistance implementers here. Such entities are forced to exchange currency at the official rate of approximately 5000 manat to one dollar, rather than the still-legal unofficial rate of 23,800 manat to one dollar. Although the Central Bank told the European Bank for Reconstruction and Development that it was not prepared to discuss this issue, it has subsequently expressed an interest in receiving assistance with currency reform. The Ministry of Economy and Finance reportedly is preparing a report on this issue, but is said to worry that rapid change would financially devastate government ministries. Of course, intellectual property rights continues to be an area of concern for the U.S. government.

#### ENERGY RESOURCES

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15. (SBU) Turkmenistan has world-class natural gas reserves, but Russia's monopoly of its energy exports has left Turkmenistan receiving less than the world price and overly beholden to Russia for export. Pipeline diversification, including both a pipeline to China proposed for 2009 and the possibility of resurrecting plans for Trans-Caspian and Trans-Afghanistan pipelines that would avoid the Russian routes, and construction of high-power electricity lines to transport excess energy to Turkmenistan's neighbors, including Afghanistan, would not only enhance Turkmenistan's economic and political sovereignty, but also help fuel new levels of prosperity throughout the region. Berdimuhamedov has told U.S. interlocutors he recognizes the need for more options and has taken the first steps to this end, but he also moved toward increasing the volume of gas exports to Russia -- agreeing in principle to build a new littoral pipeline -- during the May tripartite summit in Turkmenbashi. He will require encouragement and assistance from the international community if he is to maintain a course of diversification in the face of almost certain Russian efforts to keep Turkmenistan from weaning itself away from Russia.

#### TURKMENISTAN POST-NIYAZOV

16. (SBU) A hydrocarbon-rich state that shares borders with Afghanistan and Iran, Turkmenistan is in the midst of an historic political transition. The unexpected death of President Niyazov on December 21, 2006, ended the authoritarian, one-man dictatorship that by the end of his life had made Turkmenistan's government among the most repressive in the world. The peaceful transfer of power following Niyazov's death confounded many who had predicted instability because the former president had no succession plan. President Berdimuhamedov quickly assumed power following Niyazov's death with the assistance of the "power ministries" -- including the Ministries of National Security and Defense, and the Presidential Guard. His position was subsequently confirmed through a public election in which the population eagerly participated, even though it did not meet international standards.

## NIYAZOV'S LEGACY

17. (SBU) Berdimuhamedov inherited a country that former President Niyazov had come close to running into the ground. Niyazov siphoned off much of Turkmenistan's hydrocarbon proceeds into non-transparent slush funds used, in part, to finance his massive construction program in Ashgabat at the expense of the country's education and health-care systems. Politically, his increasing paranoia -- particularly after the 2002 armed attack on his motorcade -- led to high-speed revolving-door personnel changes at the provincial and national level, and an obsessive inclination to micro-manage the details of government. Criticizing or questioning Niyazov's decisions was treated as disloyalty, and could be grounds for removal from jobs, if not worse. Niyazov's "neutral" foreign policy led to Turkmenistan's political and economic isolation from the rest of the world, and his policies calling for mandatory increases in cotton and wheat production led to destructive agricultural and water-use policies that left some of Turkmenistan's arable land salty and played-out.

### EDUCATION -- "DIMMER PEOPLE EASIER TO RULE"

18. (SBU) Niyazov's attacks on the educational system grew increasingly destructive in his later years. The Soviet-era educational system was broadly turned into a system designed to isolate students from the outside world and to mold them into loyal Turkmen-speaking presidential Thralls. President Niyazov famously defended this policy when, in 2004, he told a fellow Central Asian president, "Dimmer people are easier to rule." Niyazov's destruction of his country's education system included cutting the Soviet standard of ten years of compulsory education to nine, firing large numbers of teachers, and introducing his own works as core curriculum at

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the expense of the traditional building blocks of a basic education. He slashed higher education to two years of study and discouraged foreign study by refusing to recognize foreign academic degrees. Taken together, these steps created a "lost generation" of under-educated youth ill-equipped to help Turkmenistan take its place on the world stage.

### RULE OF LAW -- A LOW BAR

19. (SBU) Niyazov seriously harmed Turkmenistan's political system. His capricious authoritarianism left a legacy of corrupt officials lacking initiative, accountability, and -- in many cases -- the expertise needed to do their jobs. Young officials who came of age after Niyazov's destructive changes to the education system are particularly deficient in skills and broader world vision needed to facilitate Turkmenistan's entry into the international community. Many laws lack transparency and provision for oversight and recourse. The population's lack of understand of the meaning of rule of law has left the bar low in terms of citizens' expectations of their government.

### BERDIMUHAMEDOV BEGINS TO REBUILD THE SYSTEM

110. (SBU) Berdimuhamedov still speaks of maintaining his predecessor's policies, but he has started reversing many of the most destructive, especially in the areas of education, health, and social welfare. He has restored -- and in many cases -- increased old-age pensions that Niyazov had largely eliminated. The president is embarking on a course of hospital-building, with the main focus on improving medical facilities in Turkmenistan's five provinces. To this end, he has already authorized construction of five provincial mother-and-children (maternity) hospitals. He has also publicly committed to improve rural infrastructure and to ensure that every village has communications, electricity and running water.

¶11. (SBU) In education, Berdimuhamedov is reversing many of the policies Niyazov ordered him to implement while he served as Deputy Chairman of the Cabinet of Ministers for Education.

Since his inauguration, Berdimuhamedov has ordered a return to the compulsory standard of ten years' education, a return of universities to five years of classroom study, and a new emphasis on exchange programs and the hard sciences. On July 13, he called for recognition of foreign academic degrees, a major step which would allow exchange students to receive credit for their overseas study. The goal is to repair Turkmenistan's broken education system as quickly as possible and to give the country the educated workforce that it needs to compete commercially. These efforts, however, are hampered by old-thinking bureaucrats, especially in the Ministry of Education, who sometimes block or otherwise impede foreign assistance programs. This may perhaps be a legacy of the culture of xenophobia Niyazov had encourage.

#### ELIMINATING THE CULT OF PERSONALITY

¶12. (SBU) Berdimuhamedov has incrementally started dismantling Niyazov's cult of personality. Huge posters of the deceased president are beginning to be removed from public buildings, and references to Niyazov's "literary" works, especially the Ruhnama, are less frequent and might fade away over time. The new president has banned the huge stadium gatherings in his honor and the previous requirement for students and government workers to line the streets, often for hours, along presidential motorcade routes. That said, in some places, Niyazov's picture has been replaced by Berdimuhamedov's, and the new president's quotes are now replacing Ruhnama quotations on newspaper mastheads.

#### FIRST STAGES OF POLITICAL REFORM

¶13. (SBU) Berdimuhamedov has begun replacing the ministers he inherited from Niyazov. His focus seems to be on finding

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better-qualified individuals. On August 24, he established a "Human Rights Commission" to help bring the practices and policies of Turkmenistan's government agencies into line with international human rights standards and conventions. He has established a state commission to review complaints of citizens against law enforcement agencies, which has become a mechanism for pardoning at least some of those imprisoned (including for complicity in the 2002 attack on the presidential motorcade) under Niyazov. Berdimuhamedov pardoned 11 prisoners in early August, including the former Grand Mufti of Turkmenistan, Nasrullah ibn Ibadullah, and promised that he would pardon more. Berdimuhamedov has also agreed to allow UNDP to provide human rights training to police.

¶14. (SBU) In addition, he has slowly begun to walk back some of the most restrictive controls on movement within the country, first removing police checkpoints on the roads between cities, then -- on July 13 -- eliminating the requirement for Turkmenistan's citizens to obtain permits to travel to border zones (however, the permit system remains in force for foreigners). Although the president has been slower to strengthen the rule of law, and correct Turkmenistan's previous human rights and religious freedom record, he has told U.S. officials he wants to "turn the page" on the bilateral relationship and is willing to work on areas that hindered improved relations under Niyazov. He has approved an unprecedented number of visits by U.S. delegations since he took office, including those directed toward promoting change.

#### FOREIGN POLICY: A NEW FOCUS ON ENGAGEMENT

¶15. (SBU) Notwithstanding his statements that he plans to continue the "neutrality" policies of his predecessor, Berdimuhamedov -- probably at the advice of Deputy Chairman

of the Cabinet of Ministers and Foreign Minister Rashit Meredov -- has put an unprecedented emphasis on foreign affairs. Indeed, Berdimuhamedov has met or spoken by telephone with all the leaders in the region -- including with President Aliyev of Azerbaijan, with whom Niyazov had maintained a running feud. He has exchanged visits with Russia's President Putin, and held a high-profile gas summit with Putin and Kazakhstan's President Nazarbayev in Turkmenistan's Caspian seaside city of Turkmenbashi (Krasnovodsk). China has a strong and growing commercial presence in Turkmenistan, and continues to court Berdimuhamedov through a series of high-level commercial and political visits. In mid-July, Berdimuhamedov made a state visit to China, focused mainly on natural gas and pipeline deals. While Turkey has given Berdimuhamedov top-level treatment, including an invitation to Ankara, its relationship with Turkmenistan continues to be colored more by the image of its lucrative trade and construction contracts, amounting to hundreds of millions of dollars, than by generous development assistance or fraternal support. Berdimuhamedov has also held positive meetings with high-level U.S. State Department officials and leaders of the Organization for Security and Cooperation in Europe (OSCE) and United Nations to discuss areas of potential assistance. He met with UN High Commissioner on Human Rights Louise Arbour in May, the Head of the OSCE's Office for Democratic Institutions and Human Rights (ODIHR), Christian Strohal, and agreed to a visit by the UN's Special Rapporteur on Religious Freedom at an as-yet undetermined date.

#### U.S. POLICY

¶16. (SBU) U.S. policy in Turkmenistan is three-fold:

- Encourage democratic reform and increased respect for human rights and fundamental freedoms, including support for improvements in the education and health systems;
- Encourage economic reform and growth of a market economy and private-sector agriculture, as well as diversification of

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Turkmenistan's energy export options; and

- Promote security cooperation.

In raising human rights concerns, the United States:

- Encourages further relaxation of Niyazov-era abuses and restrictions on freedom of movement;
  - Promotes greater religious freedom, including registration of unrecognized groups like the Roman Catholic Church, and making legal provision for conscientious objectors; and
  - Advocates the growth of civil society by urging the government to register Turkmenistani non-governmental organizations.
- HOAGLAND